

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

58802

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COLECO INDUSTRIES, INC.,

Plaintiff,

84 Civ. 2596 (RWS)

- against -

OPINION

UNIVERSAL CITY STUDIOS, INC.,

Defendant.
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A P P E A R A N C E S:

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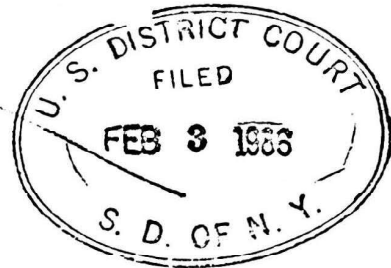
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Plaintiff Coleco Industries, Inc. ("Coleco") has moved for summary judgment in a diversity action seeking rescission against defendant Universal City Studios, Inc. ("Universal"). Coleco seeks \$4,700,000 as restitution of all sums paid under a prior royalty agreement between the parties, and exemplary damages, attorneys' fees and costs. In support of its motion, Coleco cites two prior decisions by this court, Universal v. Nintendo, 84 Civ. 2596 (S.D.N.Y. July 29, 1985) and 578 F. Supp. 911 (S.D.N.Y. 1983) (collectively, Nintendo), which Coleco claims entitles it to a favorable judgment under the doctrine of collateral estoppel. Universal opposes the grant of any collateral estoppel effect and denies that Coleco is entitled to summary judgment on any of its claims. Upon the facts and conclusions set forth below, Coleco's motion is denied.

Universal's acts in the spring of 1982, seeking to enforce its rights in the mythical ape King Kong have already been subjected to extensive litigation and analysis by this court and our Court of Appeals, as have Nintendo's efforts to receive compensation for the damage done by Universal to Nintendo's rights to Donkey Kong, its highly successful home video game. What started as an analysis of the derivation and development of rights in two gorillas, King Kong and Donkey Kong, a not uncomplicated subject, has now become an intricate exercise in corporate litigation strategy and tactics with millions as yet uncalculated at issue. What now remain at issue are the present consequences to Universal and Coleco of their respective assessments of the rights and remedies available to them as the events of 1982 and 1983 unfolded. Authors and imaginary apes have moved off and lawyers and businessmen now occupy center stage in the litigation. As the factual context is reexplored through new legal disputes, considerable care is required to determine just what has been resolved and in what context. That in itself has become complex and challenging.

Coleco is a Connecticut corporation engaged in the business of manufacturing, distributing and selling numerous recreational products, including home video system electronic games. Universal is a Delaware corporation with its principal place of business in Los Angeles, California. Universal maintains a prominent position in entertainment industry and is engaged in the business of producing and distributing motion pictures as well as licensing various Universal trademarks and characters for use by others in connection with the sale of merchandise and services.

On May 12, 1985, Coleco entered into an agreement with Universal under which it agreed to pay royalties to Universal from profits earned through the production and marketing of a Donkey Kong cartridge with its Coleco-vision home video system (the "May 12 Agreement"). In turn, Universal agreed to refrain from bringing an action against Coleco for infringement by Donkey Kong of Universal's rights in King Kong. The May 12 Agreement was reached after a full opportunity for the exercise of corporate analysis on both sides, meetings attended by executives and lawyers, and an ultimate compromise. As a consequence of the May 12 Agreement, Universal received royalty payments of \$4,680,613 on gross video cartridge sales of approximately \$156 million. Coleco now seeks rescission and damages on the basis of economic duress, fraud and lack of consideration which issues it claims were established in the litigation between Universal and Nintendo.

Prior Proceedings

In April, 1982, Universal filed an action here against Nintendo Co. Ltd., a Japanese corporation, and its subsidiary, Nintendo of America (collectively "Nintendo") claiming trademark infringement and unfair competition. No effort was made to obtain any

~~preliminary injunctive relief. Nintendo's motion to dismiss was granted on December 27,~~
1983 on the overall holding that Nintendo had violated none of Universal's rights. Nintendo,
supra, 578 F. Supp. 911 (the "first Nintendo ruling"). Thereafter Universal and Nintendo
continued with discovery on unresolved counterclaims of Nintendo for unjust enrichment,
vicarious copyright infringement and tortious interference with contractual relations. In
October, 1984 the first Nintendo decision dismissing Universal's claims was upheld on
appeal, Universal City Studios, Inc. v. Nintendo Co., Ltd., 746 F.2d 112 (2d Cir. 1984).

Four months after the first Nintendo ruling, in April, 1984, Coleco brought this
diversity suit against Universal. In March, 1985, as discovery was conducted on the
counterclaims in Nintendo, counsel for Nintendo suggested before this court and in the
presence of Coleco's counsel that Coleco and Nintendo's action be consolidated. However,
no motions for intervention were introduced from any quarter. A bench trial on Nintendo's
counterclaims was conducted from May 20 to May 28, 1985. During trial this court raised
the consolidation issue, expressly inviting Coleco's counsel to participate in the discussion.
Counsel for Coleco did not respond. Again no motion to intervene was entered.

In the July 29, 1985 opinion which followed the Nintendo trial, Nintendo's
counterclaim for unjust enrichment was denied while its counterclaims for vicarious
copyright infringement and tortious interference with contractual relations were granted.
On September 16, 1985, Coleco filed the instant motion for summary judgment by collateral
estoppel. Although Universal filed a motion to reopen the Nintendo proceedings, that
motion was denied on December 26, 1985, rendering moot Universal's argument that the
Nintendo action lacks finality for collateral estoppel purposes.

The Facts

The factual circumstances which have propelled this litigation are generally set forth in the Nintendo decisions, familiarity with which is assumed. Since the judgment rendered in Nintendo dealt with a number of legal theories, it is necessary to review that opinion. Nintendo's claim of tortious interference with contractual relations divided into three categories relating to 1) Coleco, Atari and Ruby-Spears, who executed agreements with Universal but continued to perform their obligations on their Nintendo licenses, including marketing Donkey Kong and paying royalties, 2) Nintendo's other licensees who failed to pay guaranteed royalties to Nintendo as a result of Universal's actions, and 3) potential licensees who were allegedly dissuaded from doing business with Nintendo by Universal's actions.

Nintendo's cause of action failed with respect to its contracts with Coleco and the other licensees who continued to perform their obligations. In those cases there was no material breach because "the clause prohibiting the licensee from impairing Nintendo's ownership right, read in conjunction with the licensee's assumption of right with respect to infringement violations and Nintendo's unwillingness to indemnify the licensee, cannot be interpreted to preclude the licensee from settling cases alleging infringement." Coleco was included in this category since it had satisfied all of its royalty obligations under the licensing agreement. Therefore, there was no finding of tortious interference by Universal with the relationship between Nintendo and Coleco, only with respect to those licensees that had failed or refused to pay royalties as a result of Universal's representations without probable cause and for a purpose other than securing proper adjudication of a claim.

Collateral Estoppel

A. Failure to Intervene

Universal first argues that Coleco's failure to join in the Nintendo action should estop Coleco from relying on that action as a means of precluding litigation over similar issues now raised against Universal. Universal notes that although Coleco had the opportunity to join in the Nintendo action, it did not seek to intervene but rather waited until after Universal's copyright claims were dismissed in that action before filing its own complaint against Universal. Universal therefore argues that, by adopting this "wait-and-see" attitude, Coleco knowingly avoided the possibility of being bound by an adverse judgment in the Nintendo action and that this delay renders the application of issue preclusion inequitable.

"Offensive" collateral estoppel, as approved in Parklane Hosiery v. Shore, 439 U.S. 322 (1979) permits a plaintiff to foreclose the relitigation of an issue previously lost by a defendant in an action with another party. While sanctioning the use of offensive collateral estoppel, the Supreme Court cautioned that unbridled application of the doctrine might promote piecemeal litigation. If offensive collateral estoppel was granted without restraint, potential plaintiffs would benefit from a decision adverse to the defendant but would not be bound by a judgment favorable to the defendant. There is thus no incentive to intervene in the first action against the defendant, but rather reason to wait for the conclusion of the first action by another plaintiff in order to take advantage of that judgment and avoiding the risk of being bound by an adverse judgment. For this reason the Court concluded that:

the preferable approach for dealing with these problems in the federal courts is not to preclude the use of offensive collateral estoppel, but to grant trial courts broad discretion to determine when it should be applied. The general rule should be that in cases where a

plaintiff could easily have joined in the earlier motion or where . . .
the application of offensive estoppel would be unfair to a defendant,
a trial judge should not allow the use of offensive collateral estoppel.

Parklane, supra, 439 U.S. at 329-30.

In addition to the problem of piecemeal litigation a court must also consider whether a defendant has had a fair opportunity to litigate. Unfairness in the application of offensive collateral estoppel may be found where a defendant had little incentive to defend vigorously in the first action, either because defendant is sued for small or nominal damages, or if future suits are not foreseeable; where the judgment relied upon as a basis for the estoppel is inconsistent with one or more previous judgments in favor of the defendant, or where the second action affords the defendant procedural opportunities unavailable in the first action. Id. at 330.

Coleco argues that because it filed its April, 1984 action prior to the commencement of trial on Nintendo's counterclaim and well before July, 1985 when the judgment they rely upon was rendered, it cannot be deemed to have adopted a "wait-and-see" attitude. Instead, Coleco claims that it took affirmative steps to redress its claims while the outcome of the collateral proceeding was still uncertain. Coleco also asserts that it could not have "easily" joined in the Nintendo action because Universal opposed a suggestion by the court and a motion by Nintendo to consolidate the two actions.

If Coleco could have joined in the Nintendo action, fairness and judicial economy are not found simply because Coleco filed suit prior to the second decision in Nintendo. There is, of course, no reason why Coleco should have sought to intervene as a defendant in the first stage of the Nintendo action. The adjudication of that case concerned only Nintendo's liability for alleged infringement of Universal's rights in King Kong. Coleco

~~stood to gain nothing from participating as a defendant in the resolution of this issue, and would have been forced to expend legal fees which it had already chosen to avoid.~~

However, during the trial of Nintendo's counterclaims, Coleco had committed itself to litigation and could easily have intervened as a plaintiff. The same factual background underlies Coleco's claims and certain of the issues raised by the Nintendo counterclaims. Both cases involve Universal's threats to sue for infringement, and its knowledge of the validity of its claims. Both suits concern business meetings, communications and negotiations by all three parties over the agreements in dispute. A telling consideration is that depositions and affidavits of Coleco's officers were introduced into the record as part of the Nintendo suit. This commonality of factual background and witnesses indicates that joinder would have been appropriate in that case and would have served the ends of judicial economy by resolving both Nintendo's and Coleco's claims at the same time. Coleco has not presented any suggestion that consolidation would have faced any procedural or practical obstacles.

Furthermore, Coleco was well aware of the Nintendo action since its chief officer participated in discovery in that suit and its counsel attended the trial. See Charles J. Arndt, Inc. v. City of Birmingham, 748 F.2d 1486, 1494 (11th Cir. 1984). Coleco only cites Universal's reservations to joinder expressed in conference, but this "obstacle" is more apparent than real. Since no motion to intervene was made, the mere content of in-court discussion of the positions of the parties with respect to the issue of joinder does not weigh heavily against the similarity of proof indicating that these two cases could have easily been made one.

Coleco indeed had everything to gain and nothing to lose by not intervening in that prior action. Had Universal not been held liable under Nintendo's contract and

copyright action, Coleco would still have been free to press its present claim for rescission.

As a party to Nintendo, however, Coleco would have been bound by an adverse judgment. This is precisely the situation contemplated in Parklane, where the Court cautioned against sanctioning the use of offensive collateral estoppel against a defendant by a plaintiff which could easily have participated in the a prior action. To allow this practice by permitting the use of collateral estoppel against Universal would further encourage the inefficient piecemeal litigation of a common set of facts. Put simply, the failure to seek intervention must be counted against Coleco in light of the fact that its suit was pending in the same court. In these circumstances, the use of collateral estoppel by plaintiffs would be inequitable.

B. Issue Preclusion

Coleco's motion fares no better when addressed on its merits. In Montana v. United States, 440 U.S. 147, 153 (1979) the Supreme Court described the doctrine of collateral estoppel as follows:

Under collateral estoppel, once an issue is actually and necessarily determined by a court of competent jurisdiction, that determination is conclusive in subsequent suits based on a different course of action involving a party in the prior litigation.

The following preconditions to the application of collateral estoppel must be demonstrated: (1) the party against whom collateral estoppel is asserted must have been a party, or in privity with a party, to the prior action; (2) the issues to be collaterally estopped must have been finally determined on the merits; (3) the estoppel issues must have been essential, necessary, and material to the prior action; (4) the estoppel issues must have been actually litigated, and the party to be estopped must have had the opportunity to litigate the issues fully and fairly; and (5) the issues decided must be identical to the issues sought to be

estopped. See Montana, supra, 440 U.S. at 183-85; Parklane Hosiery Co. v. Shore, 438 U.S. 322, 326-37 (1979); Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation, 402 U.S. 313 (1971); Partmar Corp. v. Paramount Pictures Theatres Corp., 347 U.S. 89, 100-103 (1954).

The requirement of privity is satisfied since Universal is a defendant in both cases. There is no longer any dispute regarding the finality of the prior judgment and the Nintendo action was contested fairly and vigorously. Hence, the question presented is whether or not the issues raised by Coleco's claims share an identity with the issues necessary and essential to the Nintendo decision. While the requirement of identical issues may be expressed with succinct facility, the application of this standard is rarely a simple matter. The initial difficulty lies in determining what phrases and statements in the earlier decision constitute issues that may serve to preclude subsequent findings and conclusions.

The term "issues" connotes a legal claim or conclusion but a review of the relevant authorities reveals that issues which may be subject to collateral estoppel include not only the ultimate conclusions of law which settle the particular claims asserted but also any underlying legal issues and factual findings which were necessary to support the ultimate conclusions. Allen v. McCurry, 449 U.S. 90, 99 (1980) ("once a court has decided an issue of fact or law necessary to its judgment, that decision may preclude relitigation of the issue"). See 18 C. Wright, A. Miller & E. Cooper, Federal Practice and Procedure, § 4417 (1981); 1B J. Moore, J. Lucas & T. Currier, Moore's Federal Practice, ¶ 0.443[2]-[5] (1984). See also Wickam Contracting Co. v. Board of Education, 715 F.2d 21, 28 (2d Cir. 1983) (recognizing that prior factual determinations, if necessary and material, would preclude relitigation of those findings).

appreciated. Coleco has here asserted that it may rely on the following facts established by Nintendo: (1) that Universal threatened Nintendo licensees with litigation through bad faith assertions of broad rights to King Kong; (2) that Universal executed a royalty agreement with Coleco based on a compromise of rights to King Kong. From these facts Coleco seeks to compel the conclusion that the royalty agreement was infected by the bad faith threats identified in the Nintendo litigation. However, this syllogism does not satisfy the requirement of identity of issues because the Nintendo decision made no determination regarding the representations underlying the royalty agreement nor any legally competent comparison between the representations made to Coleco and those made to the other licensees. While Coleco is obviously inclined to read the Nintendo decision in a partisan light, such an optimistic outlook simply does not translate into judgment on the pleadings for the plaintiff. As set forth below, the facts in Nintendo which were necessary to that judgment do not support the foundation which will have to be established in the present action.

1) Economic Duress

Coleco claims that Nintendo's finding of Universal's bad faith threats to sue Nintendo licensees also established that Coleco was subjected to economic coercion which succeeded due to Coleco's commercial vulnerability. This argument, however, mistakenly assumes that the legal claim of tortious interference due to bad faith litigation is coextensive with a claim for economic coercion.

An issue raised by a litigant may be different than an issue previously determined arising from the same facts if a different legal standard is applied to those facts. As noted in Overseas Motors, Inc. v. Import Motors Ltd., 375 F. Supp. 499, 518 (1974), aff'd, 519 F.2d 119 (6th Cir. 1975):

~~1/ If the issues concern the legal significance of those facts, the legal standards to be applied must be identical; different legal standards as applied to the same set of facts creates different issues.~~

Since there are differences in the legal standards to establish tortious interference with contractual relations as compared with the standard for economic coercion, those claims are not identical.^{1/} To establish economic duress, Coleco must show that Universal committed a wrongful act sufficiently coercive to cause a reasonably prudent person faced with no reasonable alternative to succumb to the perpetrator's pressure. Leeper v. Beltrami, 53 Cal.2d 195, 203-205, 1 Cal.Rptr. 12, 347 P.2d 12 (Cal. 1959); Louisville Title Insurance Co. v. Surety Title & Guaranty Co., 60 Cal.App.3d 781, 799-802, 132 Cal.Rptr. 63 (Cal.Ct.App. 1976). In addition, the inquiry into whether or not an alleged victim of economic coercion acted reasonably is a factual question which must be determined by inferring whether the state of mind of the alleged victim was inconsistent with the free exercise of will essential to making a contract. Balling v. Finch, 203 Cal.App.2d 413, 21 Cal.Rptr. 490, 493-94 (Cal.Ct.App. 1962).

^{1/} The parties have assumed in their briefs that the legal standards for Coleco's claims are provided by the law of the State of California, presumably on the basis that the May 12 Agreement was negotiated and executed in that state. This assumption is in accordance with the choice of law rules of this forum's state. See Klaxon v. Stentor Electric Manufacturing Co., 313 U.S. 487 (1941); Fleet Messenger Service v. Life Insurance Company of North America, 315 F.2d 593 (2d Cir. 1963). The Nintendo rulings were governed by New York law with respect to the tortious interference claim. Fortunately, the disparity between the elements of the present claims and those necessary to the Nintendo judgment obviate the need to examine the congruence between New York and California authorities on similar exact degree of legal issues. See 1B Moore's Federal Practice, supra, ¶ 0.443[2] at 3904-05.

~~While Coleco insists that the court finding that Universal induced Nintendo's~~
licensees to breach their agreement fully confirms the fact that Coleco's representatives had no other reasonable alternative, the adjudication of the tortious interference involved no inquiry into the knowledge and intentions of Coleco's representatives as would be required to establish economic coercion. Under New York law, an action for tortious interference will lie if the defendant has actual knowledge of a valid contract between the plaintiff and another, and the defendant procures that breach to plaintiff's detriment. Optivision, Inc. v. Syracuse Shopping Center Associates, 472 F. Supp. 665, 684 (N.D.N.Y. 1979). No element of tortious interference relates to the state of mind or intentions of the contracting party whose breach is claimed to have been induced by the defendant. The cause of action focused on the knowledge and actions of Universal pertaining to its interference with the Donkey Kong licensing agreements.

In examining the issue of tortious interference, it was necessary to determine that the threat of litigation against the Nintendo licensees that failed to pay guaranteed royalties was without probable cause. The lack of probable cause was established by finding that Universal had not identified its specific ownership rights in King Kong at the commencement of the litigation, that it recognized the limitations of its merchandising and representational rights and that its reliance on advice of counsel was unsupported by the evidence.

It was neither necessary nor essential to the Nintendo case to determine whether Coleco had any "reasonable alternative" in entering into the agreement with Universal, nor did this court make such a determination with respect to Coleco's present claims. Because the earlier holding did not reach the issue of Coleco's intentions in entering into that agreement, it cannot establish all of the elements of Coleco's claim of economic coercion. At most, the Nintendo action established the wrongful intent of Universal when it

threatened litigation. Nevertheless, this finding did not apply to the alleged threats against Coleco since the opinion concluded that the agreement between Universal and Coleco did not result in tortious interference. While Coleco assumes that the same alleged threats and misrepresentations were made to all licensees, this argument is unsupported by doctrine of collateral estoppel. Finally, as explained above, Coleco must also establish that the acts of Universal were sufficiently coercive to cause a reasonably prudent person to succumb. If anything, the Nintendo opinion undercuts this second element since it recognized that several apparently reasonable companies differed as to their responses to Universal's advances and therefore the alleged coercive pressure did not necessarily require submission. There is also a suggestion in the record that Coleco's counsel evaluated the Universal claim as weak, implying an alternative course of action.

With regard to Coleco's intentions, there exist numerous material factual issues that require the denial of summary judgment. Citibank, N.A. v. Real Coffee Trading Co., 566 F. Supp. 1158, 1163 (1983). Coleco's representatives were knowledgeable businessmen, well-advised by counsel, who may have chosen to enter into the agreement with Universal for business reasons apart from Universal's assertion of ownership. Whether or not this is so, no determination regarding Coleco's available options was rendered in Nintendo, and, therefore, to preclude Universal from cross-examining plaintiff's representatives about their reasons for entering into the agreement would deny Universal the full and fair opportunity to litigate the issue in either action. Therefore, Coleco is not entitled to summary judgment on their claim of economic coercion.

b) Fraud

For similar reasons, Coleco's claim of fraud is not entitled to summary judgment based on collateral estoppel. The elements of an action for fraud are: 1) a material

act in reliance on the misrepresentation; 4) actual and justifiable reliance; and 5) damage resulting from such actual and justifiable reliance on the misrepresentation. Hill v. Wrather, 323 P.2d 567, 570, 158 Cal.App. 818 (Cal.Ct.App. 1958). A plaintiff must establish all five elements to prevail.

There is language in the Nintendo opinion which supports Coleco's assertion that Universal is estopped from denying the wrongfulness of its assertion of ownership rights. This language, however, was not necessary to the judgment and thus cannot serve as a basis for collateral estoppel. See RX Data Corp. v. Department of Social Services, 684 F.2d 192, 197 (2d Cir. 1982). The affirmative holding of tortious interference requires a wrongful inducement to breach a contract, but does not depend upon whether or not the inducement was itself fraudulent. A finding of fraud is not necessary to recovery for tortious interference. Felicie, Inc. v. Leibovitz, 412 N.Y.S.2d 625 (1979). Under New York law, the only showing of intent necessary in a contractual interference claim is that of the defendant to interfere with the performance of the contract. Herzog & Straus v. GRT Corp., 553 F.2d 789 (1977), (citing, Hornstein v. Podwitz, 254 N.Y. 443, 447, 173 N.E. 674, 675 (N.Y. 1940)); Wegman v. Dairylea Cooperative, Inc., 50 A.D.2d 108, 113-114, 376 N.Y.S.2d 728, 735-36 (N.Y.App.Div. 4th Dep't 1975), leave to appeal dismissed, 38 N.Y.2d 918, 382 N.Y.S.2d 979, 346 N.E.2d 817 (N.Y. 1976).

Similarly, the holding regarding Universal's bad faith instigation of litigation and threats of litigation rested on a comparison between the complaint filed by Universal and its knowledge of the merits of that complaint. The occasional references to representations made to Coleco, Atari and Ruby-Spears were not essential or material to the evaluation of Universal's bad faith litigation because Nintendo ultimately held that there was no tortious interference with these companies' license agreements. Such language may not be relied

made in the Nintendo complaint. The alleged disparity between Universal's representations to Coleco and its knowledge of its ownership rights were not at issue in Nintendo and therefore must be presented afresh to adjudicate Coleco's claim of fraud.

Even if Universal's assertion of rights to Coleco was a material misrepresentation, this does not in itself constitute a fraudulent act. In order to make out a claim for fraud, Coleco must establish that it justifiably relied on material misrepresentations when it entered into the May 12 Agreement with Universal. The question of Coleco's actual and justified reliance was not before this court in determining Nintendo's counterclaims. It would be consistent with the Nintendo decision to find that Coleco skeptically refused to rely on Universal's claims, but nevertheless chose to enter into the agreement for other reasons. Due to this disparity of issues arising from the Coleco's fraud claim and the issues necessary to the decision in Nintendo, this court did not decide whether Coleco's reliance on Universal's claim to rights in King Kong was actual or justifiable. Therefore, Coleco's claim of fraud presents issues of state of mind on which there exists substantial dispute rendering summary judgment inappropriate. Patrick v. LeFevre, 745 F.2d 153, 159 (2d Cir. 1984).

c) Mistake

There are also differences between the issues Nintendo decided and those raised under Coleco's claim that it entered into the May 12 Agreement by virtue of a material mistake. The discussion above amply indicates that the judgment in Nintendo did not establish the state of mind of Coleco with regard to the Universal agreement. However, to establish that a mistake occurred which justifies rescission, Coleco must show that it entered into an agreement with a state of mind that was not in accord with the facts regarding a material element of the bargain and that it had no legal responsibility to investigate further.

enrich the defendant and unwarrantably penalize the plaintiff for a mistake." Adams v. Heinsch, 89 Cal.App.2d 300, 200 P.2d 796, 798 (Cal.Ct.App. 1940). See Cal. Civ. Code §§ 1689(b)(1), 1567, 1577, 1578, 1692; M.F. Kemper Construction Co. v. City of Los Angeles, 37 Cal.2d 696, 235 P.2d 7, 10 (Cal. 1951).

Coleco argues that because this court found in Nintendo that defendant did not own most of the rights which it claimed in King Kong, there must have been a mistake as to the material facts of the agreement. However, as was stated in Guthrie v. Times-Mirror Co., 51 Cal.App.3d 879, 124 Cal.Rptr. 577, 581, (Cal.Ct.App. 1975):

Unless we know the nature of the legal advice on which the parties relied and their state of mind at the time they contracted, we cannot infer solely from the facts alleged that the parties doubted the validity of the transaction and therefore assumed the risks that the contract might be found to be violative of the federal antitrust law.

In Guthrie rescission was not granted to the party claiming that, in entering into a sale transaction, it had been mistaken with regard to the application of the antitrust laws.

Since there was no occasion to determine the extent of Coleco's knowledge of the material facts underlying the agreement with Universal, the application of collateral estoppel does not establish Coleco's claim that the May 12 Agreement should be rescinded due to mistake. In light of the stringent burden on a party to establish the existence of a material mistake, Coleco's motion for summary judgment is not well founded. Here again the Nintendo opinion and its findings work against the result sought by Coleco. In fact the court found that Coleco was fully aware of Nintendo's insistence that Universal had no significant protectible rights and was informed by its own counsel that Universal's assertions in fact amounted to a very weak case. These findings raise the inference that Coleco's

mind will likely turn on the credibility of Coleco's witnesses and cannot be disposed of on summary judgment. See Robertson v. Seidman & Seidman, 609 F.2d 583, 591 (2d Cir. 1979).

d) Failure of Consideration

Finally, Coleco claims that its royalty agreement with Universal should be rescinded because Universal failed to provide consideration in exchange for the royalty payments defendant received. That agreement states, in pertinent part, that:

Universal covenants and agrees . . . that Universal shall not assert any claim or institute any action against Coleco . . . based upon the claim that the manufacturing, marketing, sale or distribution of [Donkey Kong] . . . violates or infringes upon the property or trademark rights of Universal in or to the name, title, character or story "King Kong" or "Kong."

Coleco argues that Universal's covenant not to sue on its infringement claim is not adequate consideration because of defendant's in bad faith assertion of rights in King Kong. Universal asserts that because Nintendo held that Universal had some rights in King Kong, consideration was furnished and that they are entitled to the opportunity to establish that consideration validates that agreement.

Consideration, a required element of an enforceable agreement, is often characterized as a bargained-for promise or performance. See Restatement (Second) of Contracts § 71. The California Civil Code describes consideration as:

Any benefit conferred or agreed to be conferred upon the promisor by any other person, to which the promisee is not lawfully entitled, or any prejudice suffered, or agreed to be suffered, by such person,

Cal.Civ.Code § 1605. A promise of forbearance on a questionable claim may be consideration. Healy v. Brewster, 59 Cal.Rptr. 752, 251 Cal.App. 2d 541, (Cal.Ct.App. 1967). On the other hand, the fraudulent assertion and then compromise of a wholly invalid claim is inadequate consideration to support a contract. Orange County Foundation for Preservation of Public Property v. Irvine Co., 139 Cal.App. 3d 195, 201, 188 Cal.Rptr. 552, 555 (Cal.Ct.App. 1983).

The Nintendo case did not require resolution of the issues pertinent to this claim. In the prior action this court concluded that Universal had in bad faith, instituted litigation seeking to enforce broad rights to King Kong which it knew were lacking. However, this court did not conclude that Universal knew that it was completely without rights in King Kong. Universal did purchase a portion of the book rights from the original story of King Kong by virtue of its agreement with Richard Cooper. See Nintendo, 578 F. Supp. at 916. Therefore, it is not possible to conclude on the basis of the Nintendo judgment that Universal's claim of rights in King Kong were so wholly unfounded or fraudulent as to vitiate the consideration provided on the face of the May 12 Agreement under the principles enunciated in Orange County. The present case involves different legal claims regarding Universal's assertions that were considered in Nintendo. Coleco's claim in this case of failure of consideration involves the application of a different rule of law than was at issue in Nintendo. A distinction must, therefore, be drawn between the standard of validity applied to establish whether a claim foregone constitutes consideration, as compared with the less stringent standard applied to show that the assertion of Universal's claim was a "wrongful act" of bad faith litigation.

In addition, it is possible that the evidence may establish that consideration was furnished for the May 12 Agreement other than the forbearance of Universal's legal claims formally stated on the document. It is undisputed that Universal's relationship with Coleco extended over several years and encompassed a broad range of business arrangements. Universal asserts that Coleco's desire to foster favorable business relations with Universal may be found to furnish the consideration necessary to support the agreement because it was not necessary to establish the validity of the Universal/Coleco agreement in order to resolve Nintendo's claims in the prior action this issue has not yet been fully and fairly adjudicated.

Since both the validity of the Coleco/Universal agreement and the underlying question of whether the Universal/Coleco agreement was supported by adequate consideration raise issues beyond the scope of the inquiry in Nintendo, the plaintiffs are not entitled to collateral estoppel effect on their claim of failure of consideration. Penntech Papers, Inc. v. NLRB, 706 F.2d 18, 23 (1st Cir. 1983). To do otherwise would deny Universal a full and fair opportunity to litigate the issue by imposing collateral estoppel effect to an issue Universal would not fairly have foreseen would be precluded by the Nintendo case. See Restatement (Second) of Judgments § 27. ("In delineating the issue on which litigation is or is not foreclosed by the prior judgment the appropriate question to ask is whether the issue was actually recognized by the parties as important and by the trier as necessary.")

For the foregoing reasons, Coleco's motion for summary judgment based on lack of consideration is unsupported by the decision rendered in Nintendo. The excerpts of testimony by Coleco's representatives regarding the beliefs and understandings of the parties surrounding the May 12 Agreement do not eliminate the inferences raised by Universal, and, therefore, summary judgment will be denied.

Coleco's application of collateral estoppel is denied both on the procedural grounds and because the issues are not the same. An examination of the issues here presented demonstrates, by their very nature, factual controversy as well.

Coleco's motion for summary judgment is denied.

IT IS SO ORDERED.

DATED: New York, N. Y.
January , 1986

ROBERT W. SWEET
U.S.D.J.